

Message Text

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ACTION SS-15

INFO OCT-01 EUR-12 EB-08 ISO-00 SSO-00 /036 W
-----075895 151629Z /40

O R 151503Z JUN 78
FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY IMMEDIATE
SECSTATE WASHDC IMMEDIATE 3283
INFO AMEMBASSY OSLO

C O N F I D E N T I A L SECTION 01 OF 02 PARIS 19132

USOECD

TREASURY FOR BERGSTEN, BRIDGES, AND ROSENBLOOM FROM
FISHER, STATE/E FOR COOPER

E.O. 11652: GDS
TAGS: EFIN, ENRG, NO, OECD
SUBJECT: U.S.-NORWAY DOUBLE TAXATION CONVENTION:
BLUMENTHAL-KLEPPE MEETING

REF: A) PARIS 19130
B) PARIS 19131
C) TREASURY MESSAGE DTG 132349 Z JUNE
D) SECTO 7003

1. THIS MESSAGE TRANSMITS APPROVED MEMORANDUM OF
CONVERSATION HELD JUNE 14 AT USOECD BETWEEN SECRETARY
BLUMENTHAL AND NORWEGIAN FINANCE MINISTER PER KLEPPE,
AT WHICH TIME KLEPPE PRESENTED LETTER FROM GON
FOREIGN MINISTER FRYDENLUND TO SECRETARY VANCE AND THE
AIDE MEMOIRE REFERRED TO IN THAT LETTER (TEXTS OF
WHICH TRANSMITTED REFTELS A AND B). STATE S/S
CARRYING SIGNED ORIGINAL OF LETTER PLUS AIDE MEMOIRE
AND ANNEXES THERETO TO DEPARTMENT OF STATE.

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2. OTHERS PRESENT AT MEETING WERE: ON U.S. SIDE,
UNDER SECRETARY COOPER, AND KORP AND LISTER (RECORDING
OFFICER) FROM USOECD PERMANENT DELEGATION; ON
NORWEGIAN SIDE TORE BOGH (DIRECTOR GENERAL, FOREIGN
MINISTRY) AND TOROLF RAA (DCM OF PERM DEL).

3. MINISTER KLEPPE PRESENTED COPIES OF LETTER AND

AIDE MEMOIRE TO SECRETARY BLUMENTHAL AND SAID THAT THE NORWEGIAN MOTIVE FOR THE DEMARCHE WAS CONCERN AT THE POSSIBILITY THAT PAST IRS RULINGS WHICH HAD RESULTED IN TERMINATION OF CREDIT AGAINST U.S. TAXES FOR CERTAIN "TAXES" LEVIED BY SOME OIL PRODUCING COUNTRIES (E.G. INDONESIA) MIGHT BE EXTENDED TO NORWEGIAN PRACTICES. NORWAY HAD, HE THOUGHT, DEVELOPED A GOOD SYSTEM OF TAXING INCOME FROM EXPLORATION OF THE CONTINENTAL SHELF. HOWEVER, THE US-GON DOUBLE TAXATION CONVENTION (NEGOTIATED IN 1971) HAD NOT ENVISIONED THE OIL BOOM, SO THAT GON COLLECTIONS FROM OIL ACTIVITIES WERE NOT EXPLICITLY COVERED BY THE CONVENTION'S DEFINITION OF "ORDINARY" TAXES. HE SUMMARIZED THE GON SYSTEM OF ESTABLISHING PRICE "NORMS", WHICH, HOWEVER, ARE UNLIKE OPEC "POSTED PRICES", SINCE THE GON: (A) HAD SOUGHT TO CALCULATE THE NORMS ON THE BASIS OF PRICES WHICH WOULD HAVE PREVAILED IN A MARKET OF INDEPENDENT BUYERS AND SELLERS; AND (B) HAD DISCUSSED THEM WITH AND OBTAINED ACCEPTANCE OF OIL COMPANIES.

4. KLEPPE WONDERED WHETHER U.S. FIRMS WOULD JOIN IN EXPLOITATION OF NORTHERN SECTORS OF SHELF IF THERE WERE ADVERSE IRS RULING. NORWAY COULD MANAGE WITHOUT U.S.

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INFO OCT-01 EUR-12 ISO-00 EB-08 SSO-00 /036 W
-----075783 151630Z /40

O R 151503Z JUN 78
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C O N F I D E N T I A L SECTION 02 OF 02 PARIS 19132

USOECD

FIRMS' PARTICIPATION BUT PREFERRED TO HAVE THEM. THERE WERE POLITICAL CONSIDERATIONS, AS WELL AS THE FACTOR OF U.S. TECHNOLOGICAL SUPERIORITY IN DEEP WATER DRILLING. HE REFERRED TO OBLIGATION OF IEA COUNTRIES TO EXPAND PRODUCTION.

5. SECRETARY BLUMENTHAL AGREED WITH GON OVERALL ENERGY POLICY OBJECTIVES AND HOPED U.S. FIRMS WOULD PARTICIPATE. HE SAID THAT THE U.S. WILL AVOID POLICIES WHICH IMPINGE ON THESE OBJECTIVES. HE FELT THAT IRS CONSIDERATION WOULD REVOLVE AROUND TWO ISSUES: (A) WHETHER THE "NORM PRICE" ON BASIS OF WHICH GON CALCULATED TAX WAS A REAL OR NOTIONAL PRICE; AND (B) WHETHER TAX BECAME DUE AT TIME INCOME WAS REALIZED. ON POINT (A), BLUMENTHAL THOUGHT THAT, AS EXPLAINED, GON "NORM" PRICE SEEMED NOT TO BE A PROBLEM. ON POINT (B), HE COULD NOT PREJUDGE IRS CONSIDERATION BUT WAS SURE THE SERVICE WOULD MAKE EVERY EFFORT TO RESOLVE QUESTION. UNDER SECRETARY COOPER NOTED THAT IRS HAS THE AUTHORITY TO IMPUTE PRICE.

6. SECRETARY BLUMENTHAL EXPRESSED UNDERSTANDING AT GON'S REASON FOR RAISING DOUBLE TAX QUESTION THROUGH CONFIDENTIAL

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FOREIGN MINISTRY CHANNEL AND ASSURED KLEPPE THAT TREASURY WOULD WORK CLOSELY WITH STATE ON THIS ISSUE' HE NOTED THAT DAVID ROSENBLOOM, TREASURY'S INTERNATIONAL TAX COUNSEL, WOULD BE PREPARED TO HAVE FURTHER DISCUSSIONS WITH NORWEGIAN SIDE ON OCCASION OF JUNE 21-22 MEETING IN PARIS OF OECD COMMITTEE ON FISCAL AFFAIRS. SALZMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOUBLE TAXATION, MEETINGS, TAX AGREEMENTS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS19132
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780250-0825
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780656/aaaabvyr.tel
Line Count: 157
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 76916088-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 PARIS 19130
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2339339
Secure: OPEN
Status: NATIVE
Subject: U.S.-NORWAY DOUBLE TAXATION CONVENTION: BLUMENTHAL-KLEPPE MEETING
TAGS: EFIN, ENRG, NO, US, OECD
To: TRSY STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/76916088-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014